

# Gaming Market Report

## Introduction

This section provides an overview of the statewide and regional gaming markets. The Commission closely monitors the markets to determine whether they merit additional capacity. The Commission's charge is to issue licenses to applicants who best serve the interests of the citizens of Missouri.<sup>1</sup> In order to fulfill this responsibility, the Commission evaluates each market to determine whether it can add new gaming capacity without unduly affecting previously licensed facilities.<sup>2</sup>

The Commission has been hesitant to license a facility that would create an oversaturated market because of the negative impact it would have on local government budgets that are formulated based on expected gaming revenues. In addition, oversaturated markets in high tax states like Missouri have a strong tendency to result in undesirable business practices, lax regulatory compliance and cost cutting measures that negatively affect the overall quality of the gaming facilities. Furthermore, it would result in displacement and unemployment among casino workers, thus harming Missouri families. Therefore, the Commission strives to avoid oversaturation of the market.

However, should a facility become substandard, fall into disrepair or otherwise become non-competitive, the Commission would be forced to consider new projects of better quality that meet the high standards it sets for licensees. Operators of substandard facilities should not expect protection from the Commission. To the contrary, if a licensee allows its property to deteriorate and become inferior, it should expect the Commission to examine new projects that are more operationally sound.

## Statewide Market

Statewide gaming revenue surpassed the one billion dollar mark in FY 2001, topping out at \$1,049 million, a 7% increase over the prior fiscal year. The increase came despite a 9% drop in patron volume thanks to an 18% increase in Win Per Patron (WPP). WPP is the amount the casino wins, on average, from each patron. The decline in patron volume generally reflects the maturing of the Missouri markets and the lack of expansion. The increase in WPP was due in part to vend-to-meter legislation, discussed on page 27, a higher slot hold percentage and new slot product. The casinos have become adept at marketing to their existing customer base, yielding more business from each customer.

Since the close of the fiscal year, one new casino has opened and a second is expected to open by the end of the calendar year. The Mark Twain Casino in LaGrange opened for business on July 25, while the Isle of Capri in Boonville is well under construction. The new casinos will provide a catalyst for some growth; however, the Commission expects slow growth in general from the existing casinos as the Missouri markets continue to mature. The following table offers a statewide statistical comparison of FY 2000 and FY 2001.

<sup>1</sup> Section 313.805(1), RSMo.

<sup>2</sup> This is only one of many criteria the Commission evaluates when considering licensure.

	<u>FY 2001</u>	<u>FY 2000</u>	<u>% Change</u>
<b>Gaming Revenue</b>	\$ 1,049,216,000	\$ 977,129,000	7.4%
<b>Patrons</b>	22,709,000	24,925,000	-8.9%
<b>Win Per Patron</b>	\$ 46.20	\$ 39.20	17.9%

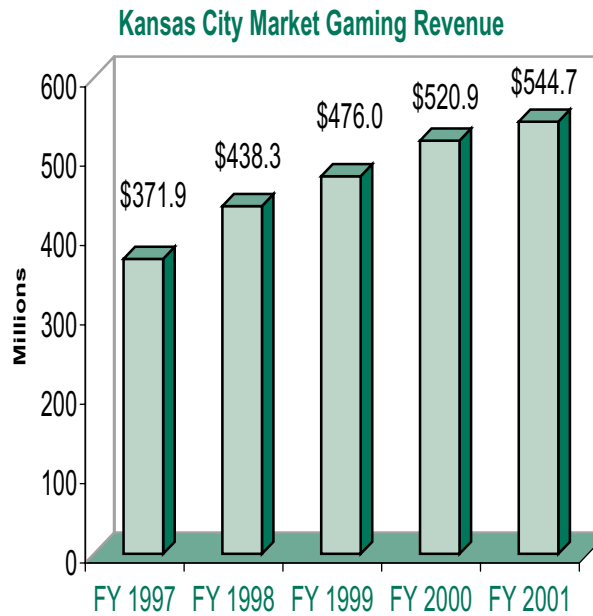
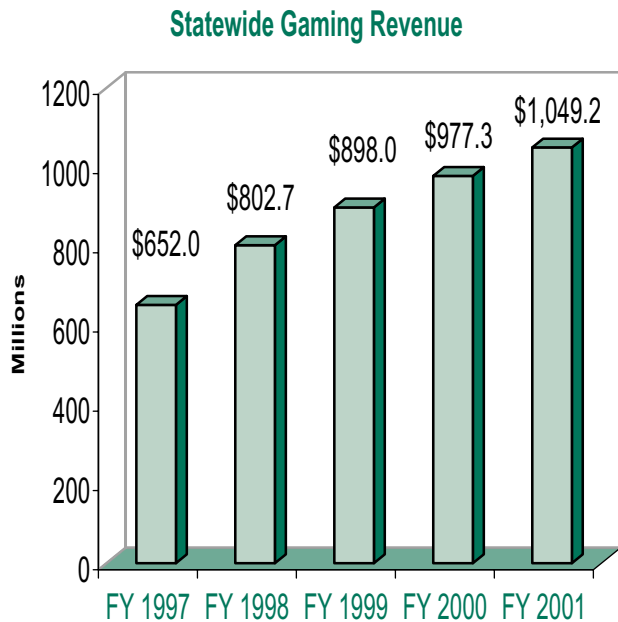
### Kansas City Market

The Kansas City market (see table below) posted gaming revenue of \$555 million for the fiscal year, a 6% increase over the prior year. The Kansas City market followed the statewide trends with regard to patron volume and WPP. Harrah's edged out Ameristar for the top spot in the market, while Argosy beat out the Isle for third. The Isle will likely challenge Argosy in the coming fiscal year due to the Isle's upgrade discussed below. The Kansas City market ranks fourteenth out of thirty-four markets in the United States in gaming revenue.

The Kansas City market experienced significant reinvestment during the year as the Isle of Capri completed a \$12 million upgrade featuring a Caribbean Island theme. Harrah's also completed a major \$45 million renovation, which added a second level to the Mardi Gras barge.



	<u>FY 2001</u>	<u>FY 2000</u>	<u>% Change</u>
<b>Gaming Revenue</b>	\$ 554,671,000	\$ 520,744,000	6.5%
<b>Patrons</b>	11,837,000	12,580,000	-5.9%
<b>Win Per Patron</b>	\$ 46.86	\$ 41.39	13.2%



### St. Louis Market

The Missouri boats in the St. Louis market (see the following table) posted moderate growth with gaming revenue of \$446 million, an 8% increase over the prior year. Again, the increase came despite lower patron volume. The coming fiscal year will likely see slower growth as WPP stabilizes. During the year, Harrah's consolidated from four casinos to two. In addition, President moved closer to Laclede's Landing, added a new porte cochere, and upgraded their slot product and related technology.

The Illinois boats in the St. Louis market (see the following table) posted gaming revenue of \$273 million, for a slightly lower growth rate of 6% when compared to the Missouri boats. Illinois captured 38% of the gaming revenue market share in the St. Louis market with only 24% of the population base, due primarily to the absence of a loss limit.

In terms of gaming revenue, the total St. Louis market is ranked tenth out of thirty-four markets in the United States.

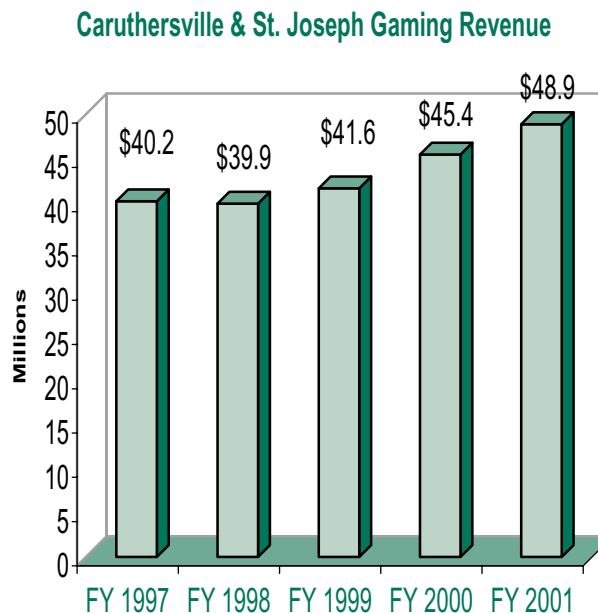
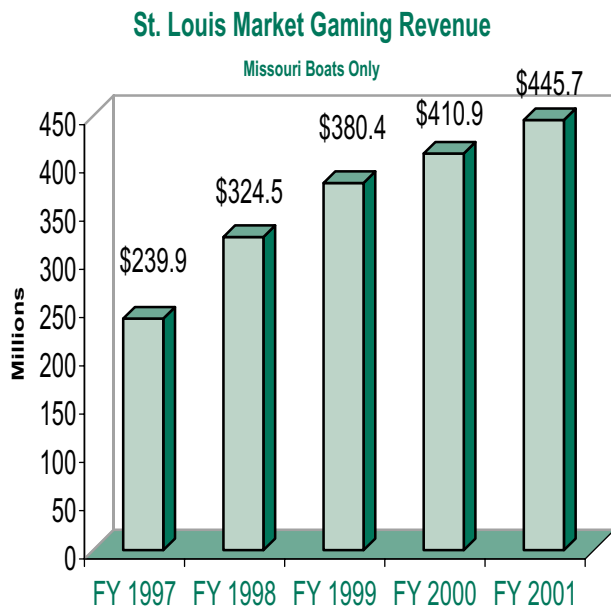
	<u>FY 2001</u>	<u>FY 2000</u>	<u>% Change</u>
<b><u>Missouri Boats</u></b>			
Gaming Revenue	\$ 445,672,000	\$ 410,942,000	8.5%
Patrons	9,942,000	11,391,000	-12.7%
Win Per Patron	\$ 44.83	\$ 36.08	24.3%
<b><u>Illinois Boats</u></b>			
Gaming Revenue	\$ 273,361,000	\$ 257,719,000	6.1%
Patrons	3,763,000	3,866,000	-2.7%
Win Per Patron	\$ 72.64	\$ 66.66	9.0%



### Other Markets

The smaller markets (see table below) of Caruthersville and St. Joseph posted 8% growth overall with gaming revenue of \$48.9 million for the fiscal year. The results reflect a 21% increase from the St. Jo Frontier offset by a 5% decline from the Aztar in Caruthersville. The St. Jo Frontier benefited from an upgrade in their slot product and a higher slot hold percentage.

	<u>FY 2001</u>	<u>FY 2000</u>	<u>% Change</u>
<b>Gaming Revenue</b>	\$ 48,873,000	\$ 45,443,000	7.5%
<b>Patrons</b>	931,000	954,000	-2.4%
<b>Win Per Patron</b>	\$ 52.50	\$ 47.63	10.2%

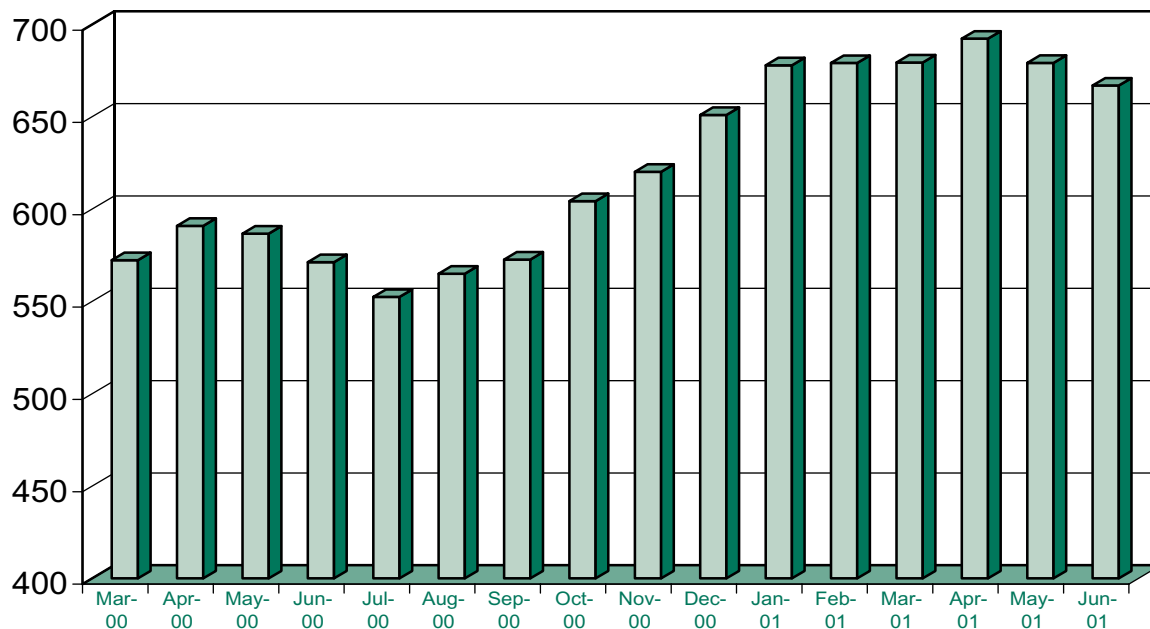


## Vend-to-Meter Legislation

Senate Bill 902, containing provisions dubbed vend-to-meter, was enacted into law on August 28, 2000. This legislation expanded the definition of token to include electronic credits. The change gave the casino patron the ability to receive slot machine credits by inserting paper currency into slot machines equipped with bill validators without inserting a physical token. The benefit to the patron is that they no longer have to expend the physical effort of inserting the token into the slot machine. This benefit is real when you consider it can save the patron from inserting as many as two thousand tokens on one transaction.<sup>3</sup> The benefit to the casino is that their customers no longer expend the time necessary to insert the physical token into the slot machines. The data suggests the more convenient procedure results in higher slot volume. This can clearly be seen by the following graph, which shows the dramatic increase in slot play per patron due in a large part to vend-to-meter. Slot play per patron is the amount of money a patron feeds into a slot machine per visit. The average slot play per patron for the six months prior to vend-to-meter was \$573 while the average slot play per patron for the last six months of the fiscal year was \$679, an increase of 19%. Therefore, the annualized statewide increase in gaming revenue, assuming 22.7 million patrons and a slot hold percentage of 6.4%, is \$154 million.

<sup>3</sup> For example, consider a patron playing a nickel slot machine who inserts a \$100 bill to begin play. Under the old law, 2000 tokens would drop into the tray, which would have to be reinserted to commence play. Under the new law, the \$100 would be converted to electronic credits and play could begin immediately.

## Slot Volume per Patron



### Reinvestment in Missouri

Reinvestment in Missouri pertains to expansion projects or other capital expenditures associated with existing casino licensees. The Commission believes that reinvestment in Missouri is positive for the citizens of Missouri. Reinvestment leads to construction jobs for area residents and new business for area vendors. The Commission licenses casino projects and casino companies that it feels will provide reinvestment, either based on the financial viability of the project or the financial strength of the casino companies. The Commission also makes regulatory decisions with an eye towards reinvestment. For instance, before the Commission allowed Harrah's Maryland Heights to consolidate from four licenses to two, Harrah's committed to a \$20 million hotel expansion.<sup>4</sup> Likewise, before the Commission allowed Ameristar Kansas City to consolidate from two licenses to one, they agreed to a \$20 million parking garage addition.<sup>5</sup> The overall figures refute the contention that Missouri casinos drain their profits from the Missouri economy. Since the inception of gaming in Missouri in May of 1994, Missouri casinos have reinvested over 59% of their operating cash flow back into their facilities. The total reinvestment figure is approximately \$645 million since inception through FY 2001. Because nearly all of the casino licensees are public companies, the remaining profits benefit shareholders, some of whom are Missourians.

<sup>4</sup> Estimate based on preliminary project design.

<sup>5</sup> Id.